

The New World of Healthcare Partnerships: Technology Companies

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Over the last decade, healthcare partnerships have accelerated, with an ever-increasing number of transactions each year as hospitals and health systems seek to gain scale, expand their reach, and acquire new capabilities to enhance their position to better serve their communities. To date, the vast majority of these partnerships have followed the traditional path of hospitals and health systems partnering with each other or physician organizations. However, as the industry continues to evolve into digital delivery models, hospitals and health systems have started to develop innovative partnerships with an entirely new class of partners: technology companies. These emerging partnerships enable providers to secure the capabilities that will be necessary to ensure their sustained growth and viability in this era of healthcare digital industrialization.

The capital markets are supporting technology-driven changes in healthcare. In the first half of 2018 alone, healthcare start-ups raised over \$15 billion of capital,¹ and this figure does not include the enormous bets being placed

¹ Analysis by Pitchbook for *Forbes*, January 1–June 30, 2018.

Key Board Takeaways

- Consider developing non-traditional partnerships with technology companies to secure new capabilities in this era of healthcare digital industrialization.
- Cast a broad net when exploring potential technology partners including both start-ups and more established players, as well as firms with both broad and focused offerings.
- Contemplate diverse models for partnering with technology companies. The full portfolio of a hospital's technology partnerships may include varying revenue and business models, or multiple partners for one solution depending on the scope and nature of the desired service offerings.
- Offer a strategically differentiated value proposition to technology companies, but also be ready to meaningfully integrate these new capabilities to achieve the greatest bilateral benefit.
- Develop the ability to act quickly and decisively on whether to double down on or exit new technology initiatives.

by some of the most established players in the technology sector, such as Apple, Google, and Amazon.² In addition, among Fortune 50 companies, 84 percent play in healthcare, up from 76 percent in 2013.³ Such companies are seeking to gain a share of the growing healthcare sector by creating innovative solutions to improve healthcare operations, engage consumers, and create linkages across patients, payers, and providers. In this evolving

² CBInsights Annual Tech Participation in Healthcare, May 18, 2017.

³ *The New Health Economy in the Age of Disruption*, PwC's Health Research Institute, April 2018.

technology-driven healthcare landscape, healthcare providers can be disrupted by these technology-oriented companies and solutions or become a partner and disrupt their own business models.

The Case for New Partnerships

Providers (hospitals and health systems and physicians) are unquestionably the leaders in the realm of patient care delivery today. Yet, as we consider the transformation to the digital delivery system of the future, new modes of delivery are emerging such as technology-driven diagnostics in radiology and virtual visits.

Hospitals should consider developing creative partnerships with both established and start-up technology companies.

Technology has the potential to enable connectivity with individual consumers in a way that could upend the traditional healthcare delivery model. Many provider organizations have identified these capabilities as future needs, though few are truly leading with digital, where these competencies are fully integrated into their business models. Providers' network of physicians and geographic distribution of assets (i.e.,

hospitals and outpatient sites) have historically offered a strategic barrier to entry. In the digital domain, these constraints are dramatically reduced, and in some cases completely eliminated.

The capital and capabilities required to develop these technology-enabled solutions will be difficult for most hospitals to overcome. Hospitals should consider developing creative partnerships with both established

and start-up technology companies. Unlike traditional partnerships that providers may pursue, the landscape of potential partners in the digital healthcare landscape is much broader. As such, we recommend the following three-step process for formulating these technology-related partnerships.

1. Consider a Wide Range of Potential Partners

The healthcare technology sector is a nascent space. In 2017 alone, there were more than 350 digital health venture transactions valued at more than \$2 million each, for a total of \$5.6 billion in funding—and the pace of funding/transactions in the healthcare technology sector

Exhibit 1: Non-Traditional Partnership Models



EXAMPLES

Livongo with several providers such as Jefferson, Mount Sinai, BJC Healthcare

Livongo, a chronic care management and digital coaching technology, is being used at a number of leading hospitals through vendor relationships.

Apple and 100 Initial Health Systems and Clinics

Apple has launched its Electronic Health Record app that gives access to health records on the iPhone to approximately 100 test health systems and clinics.

Comcast and Independence Health

Comcast provides consumer technology, and Independence Health's scale allows it to be distributed on a national level.

GeneSight and Mayo Clinic

Developed by Mayo Clinic, and licensed to Assurex, GeneSight is a genetic test that helps healthcare professionals select the right medication and dose for patients with neuropsychiatric conditions.

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Considerations for Independent Hospitals

- Geographic boundaries that have long protected many independent hospitals are falling as virtual solutions proliferate, creating new strategic threats to historically captive patient populations and their volumes.
- Innovative technology partnerships can help level the playing field for independent hospitals, as the partnerships themselves can be structured to protect strategic vulnerabilities (e.g., access to capital, operating margin performance, revenue sharing, etc.).
- Partnerships with other hospitals and health systems can be structured around integrating into their digital solutions, that protect the autonomy of independent hospitals, while extending access to technical partnerships.
- Defining clear, explicit, evidence-based business plans with broadly supported assumptions is a requirement for any digital solution, but also aligning those assumptions with explicit partnership economics and incentives is essential to ensuring independent hospitals retain their partners' focus and commitment.

does not seem to be slowing.⁴ While this remains a very speculative sector, with many companies folding as quickly as they begin, the space seems to be organizing into several broad categories: consumer health information, clinical decision support, precision medicine, fitness and wellness, and diagnosing and monitoring of disease. The companies serving each of these categories, the definition of the services offered within each of the categories, and even the categories themselves are continuing to evolve.

It is essential that providers cast a broad net and understand the full range of options when considering a technology partnership. Once the range of technology companies that provide the desired service is understood, providers can then articulate a perspective around the tradeoffs they face in choosing the right partner(s). Two areas of consideration include whether to select a start-up or a more

established player, and whether to select a technology firm that has the potential to meet multiple needs or a more narrow, focused partner. There is no one right answer. Depending on the significance of the need and the culture of the provider organization, the answer will likely vary.

2. Evaluate Diverse Models for Partnering

Providers will need to determine what revenue, business, and governance models are best for these new partnerships in a way that enables both the hospital and the technology firm to evolve their individual and collective roles and transform the industry. A framework such as the one illustrated in **Exhibit 1** can help a hospital determine the type of partnership it desires.

It is likely that hospitals will develop a portfolio of partnerships that array across the types noted in Exhibit 1 to align with the scope and nature of the desired service offerings. Additionally, providers may engage multiple partners to find the right

solution and mix of risk and return in their defined view of the future digital delivery environment.

3. Ensure a Bilateral Benefit

Similar to more traditional partnerships, providers should seek to create win-win relationships with these technology-oriented companies, regardless of the partnership model selected. To do so, providers should understand the business model and needs of the potential partners, the competitive landscape, and the value the provider specifically brings to the relationship (relative to their competitors), along with their own organizational needs.

In many cases, the core of these potential relationships centers around the desire of all parties to create and deepen connectivity and access to healthcare consumers, who themselves are assuming a more active role in how they access and consume healthcare and health/wellness-related services.

Many of these technology companies carry significant debt and are looking to grow very quickly—motivating them to partner with competitor hospitals and health systems or medical groups, payers, or in some cases, going direct to the consumer. Providers should consider their own readiness to adopt these new technologies and how the regional marketplace is evolving in their adoption of these technologies. Hospitals must not only have a strategically differentiated position, but also be ready to meaningfully integrate these new technology capabilities into their existing offerings. Without true integration into existing capabilities, new technology provides limited sustainable differentiation and can be easily imitable by other providers.

⁴ Rock Health, Digital Health Funding Database.

Positioning as a Nimble and Effective Partner

As an extremely complex and local industry, healthcare has historically been slow to change. In contrast, the pace at which technology is developing and leaders from other industries are attempting to disrupt the healthcare space has never been greater. For independent hospitals, this shift will present an

even greater threat, with incursions from other industries, but also from surrounding hospitals and health systems, attempting to capitalize on digital solutions that can extend across traditional geographic barriers. With so much activity, all provider organizations will need to develop new partnership models and be prepared to stay nimble and flexible. Providers should consider partnerships for developing new

high-priority capabilities and at the same time constantly reevaluate the partnership landscape for new technologies that obviate the old. Success for providers and technology companies alike will hinge on the ability to act quickly and decisively, while making informed decisions for whether to double down on or exit new technology initiatives.

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